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CORN GIVES UP PRICE GAINS, SOYBEANS RETAIN SOME

Corn and soybean futures prices rallied sharply from early February through mid-March. Since then, corn futures have lost most of the gain, but soybean futures are holding on to more than half the gain.

In early February, corn and soybean futures were establishing contract lows and appeared to be heading even lower. Over the following 6 weeks, July 2005 corn futures rallied $.29 and July soybean futures moved up by $1.90. The soybean rally was probably initiated by the effects of ongoing dry weather in southern Brazil and by a strong export pace for U.S. soybeans. The rally was supported by large speculative buying. The higher corn prices were likely the result of that same speculative buying. During that same 6 week period, the central Illinois July corn basis weakened by an average of $.03, so that spot cash prices increased by about $.26 at the very top of the market. Soybean basis in central Illinois weakened by about $.23 during that period, so that cash prices increased considerably less than July futures.

On April 15, July corn futures settled at $2.1425, only $.0525 above the early February low and the July basis in central Illinois remained weak, at about $-.22, $.04 weaker than in early February. July soybean futures settled at $6.22, $1.16 above the February low and $.74 below the March high. The central Illinois basis strengthened from mid March to mid April, but the cash price was still $.225 under July futures.

Soybean prices continue to be supported by the small crop in southern Brazil, good export demand, and evidence that the 2004 U.S. crop may have been 25 million bushels smaller than estimated. The USDA now projects U.S. soybean exports for the 2004-05 marketing year at a record 1.08 billion bushels, 80 million more than forecast at the beginning of the marketing year. The current strong pace of sales and shipments suggest that exports may exceed the current forecast. If the 2004 crop was overestimated, year ending stocks could be under 350 million bushels, compared to the current USDA forecast of 375 and the winter forecast of 460 million bushels.

The largest unknown for the soybean market is the likely size of the 2005 U.S. soybean crop. Intentions are to plant 1.3 million fewer acres of soybeans this year than were planted in 2004. Early season weather and weather forecasts are favorable for timely planting of the crop. Summer weather and potential disease and insect problems are uncertain and will keep yield prospects in jeopardy for several months. A yield near 40 bushels per acre would produce a crop of about 2.9 billion bushels, allow for some reduction in year ending stocks, and point to a 2005-06 marketing year average price near $5.75 per bushel, $.15 to $.20 higher than the average for the current year. Each 50 million bushel variation in production from 2.9 billion, would alter that average price projection by about $.20 per bushel. Prices could become volatile again during the growing season. The current contract high for November 2005 soybean futures of $6.505 is low by historic standards and the trading range for that contract of $1.305 is also small.

Corn prices are being pressured by prospects of large year ending stocks and a good start to the 2005 planting season. Near term weather forecasts suggest that much of the 2005 crop will be planted in a timely fashion. What about summer weather? A trend yield near 145 bushels would produce a crop near 10.75 billion bushels, allow for a significant decline in year ending stocks, and point to a 2005-06 marketing year average price of about $2.20, $.10 to $.15 higher than the expected average for the current year. Each 100 million bushel variation in production would alter that average price forecast by $.02 to $.03 per bushel.

The contract high in December 2005 corn futures, $2.885, was reached a year ago. The contract low of $2.265 was established in January 20005. The trading range of $.62 is very small by historic standards, suggesting a new high or low (both?) before the December contract matures. Pricing opportunities for the 2005 crop will be minimal until prices exceed the CCC loan rate.

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